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WASHINGTON NOTES

BANK DIRECTORS' RESPONSIBILITY

BEGINNING OF TARIFF REVISION

REDEEMING THE THREE PER CENTS.

ADVANCES OF RAILROAD RATES

What is regarded by many persons as the most significant step in banking control for a long time past has been taken by Comptroller of the Currency Murray. Mr. Murray has issued a circular of instructions to bank examiners (October 19) in which he directs that hereafter, upon the examiner's entering a bank for the purpose of examination, the Board of Directors shall be immediately convened and the following questions put:

1. What is the number of directors of the bank?
2. What number was present at this examination?
3. How many of the directors know the condition of the bank in all its details?
4. How many have but a general knowledge of the condition of the bank?
5. How many know nothing at all about the condition of the bank?
6. How many attend board meetings with regularity?
7. Have the directors full knowledge of the habits and general standing of the bank's employees?
8. Do the directors approve loans before or after they are made or leave this important duty to a committee or to the officers of the bank?
9. If they approve loans, is their approval of record in each case?
10. Can the directors certify to the genuineness of the signatures to the notes discounted by the bank?
11. Do the directors authorize overdrafts?
12. Do they tacitly permit officers to allow overdrafts?
13. Do any of the directors other than members of the discount committee examine and verify loans and discounts?
14. How often do the directors examine and list all collateral held by the bank?
15. How often do the directors examine and list all stocks, securities, and real estate mortgages owned by the bank?
16. Do the directors direct the calling in and balancing of pass books and satisfy themselves as to the correctness of the work?
17. Do the directors require the verification of accounts current at irregular or stated dates and satisfy themselves as to the correctness of accounts?
18. Have the directors verified outstanding certificates of deposit, certified checks, and cashier's checks?
19. Have the directors examined into the condition of the lawful money reserve?
20. Do they know whether or not bank notes are carried into the reserve?
21. Does a committee of the directors count the cash periodically?
22. Has a committee of the directors ever checked up the stock ledger?
23. Have the directors examined the profit and loss and expense accounts?
24. Have the directors compared the bank's copy of its last report of condition and statement of earnings and dividends with the books of the bank as of the same dates?
25. How many of the directors read the letters of criticism from the Comp-

troller? 26. Do they read carefully the replies made in answer to letters from the Comptroller? 27. What steps are taken by the directors to correct matters criticized by the Comptroller? 28. How many of the directors have read the national bank act? 29. How many know the duties of directors and what the courts have decided as to the responsibility and liability of directors?

Comptroller Murray's object is to ascertain the exact relationship between the directors of banks and the institutions of which they are in charge. It has been found in a large number of recent failures that national bank directors were merely lay figures and paid no particular attention to the work of executive officers supposed to be under their charge. Mr. Murray's view of the situation is that, in consequence of the great extension of the national system, it will be impossible to maintain a sound basis for banking unless a very much greater degree of directors' responsibility can be enforced. Careful investigation has shown that a rigid requirement of attention to duty on the part of examiners will not suffice, the examiners being nearly helpless unless they have the co-operation of the directors. This new movement for directors' responsibility was at first regarded by many bankers with extreme hostility, their feeling being that the questions of the Comptroller were in many instances impertinent or absurd. Behind this expression of opinions has been the general resistance to control which has been so conspicuous a feature of national banking for some time past. A number of the largest and most influential institutions have of late come to the support of the Comptroller on the ground that, though some of the questions proposed may represent impossibilities, the general idea of the reform is good and will operate to promote much greater soundness in banking.

The first definite step toward a revision of the tariff schedules has been taken by the Committee on Ways and Means of the House of Representatives, which has held hearings on that subject during the latter part of the month of November. Announcement of these hearings was made on the day following the presidential election, it being the confessed feeling of the Republican members of the committee that, in case the control of the House had been lost to them, they should attempt no further preliminary work in the revision of the duties but should leave the whole subject to the Democrats. The hearings appointed by the committee have been as follows: November 10, Schedule A, chemicals, oils, and paints;

November 12, Schedule H, spirits, wines, etc.; November 13, Schedule F, tobacco and its manufactures; November 16, Schedule E, sugar, molasses, and their manufactures; November 18, Schedule G, agricultural products and provisions; November 20, Schedule D, wood and its manufactures; November 21, Schedule M, pulp, papers, and books; November 23, Schedule B, earths, earthenware, and glassware; November 25, Schedule C, metals and their manufactures; November 28, Schedule M, sundries; November 30, Schedule J, flax, hemp, and jute, and their manufactures; December 1, Schedule I, cotton manufactures and Schedule L, silks and silk goods; December 2, Schedule K, wool and its manufactures; December 4, miscellaneous. Articles on the free list have been discussed in connection with the subject to which they most nearly related.

A large number of producers have appeared before the committee at the meetings thus far held and have presented argument. In most lines, the witnesses standing for various branches of manufacture have indicated a strong desire to retain existing rates of duty on the ground that changes in any direction would result in irritation and friction causing loss to the several lines of industry. A considerable number of reclassifications, readjustments, and minor alterations were, however, demanded from the very beginning of the sessions. It has been made apparent that the formulation of the tariff, whatever else it may involve, will in itself be a work of very great magnitude. Two proposals for further action are now before the Committee on Ways and Means. The first is that it shall secure the passage of the new tariff revision bill through the House at the coming short session of Congress, then reintroduce the measure at the special session which is to be summoned immediately after March 4. In this case the bill would be repassed in a *pro forma* way in the same shape in which it had already been agreed upon and would then be sent at once to the Senate. The alternative proposal is that the committee shall merely work over the schedules until the opening of the special session referred to and shall then introduce the bill for the first time in the lower chamber, submitting it to immediate debate there. It is the opinion of experts that in neither case can the measure be passed prior to the first of the coming July. The first important document bearing upon the pending struggle has just been issued by the Ways and Means Committee in a very limited edition. This document is entitled, *Notes on Tariff Revision, Ways and Means Committee, 1908*, and is largely a comparison of the

paragraphs of the present tariff act, with explanatory matter relating to the different industrial uses of various commodities, digests of the decisions of the board of general appraisers, and the like. The document gives the substance of the work which has been accomplished during the last summer in the "tariff bureau" established by Chairman Payne at Auburn, N. Y., some months ago.

Secretary Cortelyou, in ordering the redemption of the "3 per cent. certificates" issued during the panic of last autumn, has sharply called attention to the peculiar relation existing between federal bonded indebtedness and national bank currency. The certificates (as will be recalled) were issued under the act of June 13, 1898, at a period during the panic when it was believed that the existing currency famine could be relieved by the creation of more bonds to serve as a basis for notes. Owing to the improvement of conditions at a date earlier than had been anticipated, Mr. Cortelyou actually assigned to bidders only \$15,436,500 of the certificates instead of the large issue which was originally planned. The certificates, moreover, were issued in nearly all cases to banks and not to individuals, those institutions being preferred which would consent to deposit the certificates without delay as a basis for banknote issue. Of the total amount allotted, only \$13,936,500 continued outstanding during the year, the remainder being either returned to the Treasury for early redemption by agreement, or else not accepted by the banks to which they were allotted. Out of this \$14,000,000, in round numbers, some \$200,000 was held back by the banks and was not used as a basis for note currency. With this exception the whole issue was deposited with the Treasury and a corresponding amount of bank notes was put into circulation. In announcing (November 9) that he would redeem the certificates upon maturity (Department Circular No. 72, 1908,) on November 20, Secretary Cortelyou offered as a kind of bonus the prepayment of one year's interest without rebate to such banks as would retire circulation to a corresponding amount "by adopting a resolution of its board of directors, authorizing the redemption of the certificates and the application of so much of the proceeds thereof as may be necessary to the retirement of the circulation based thereon." This offer was rendered possible by the fact that the note issues based upon the certificates, instead of being retired after the panic, continued outstanding throughout the year, and was rendered desirable by reason of the

great redundancy of the currency. The significant feature of the operation is that, in making this offer to the banks, the Secretary merely assumes the responsibility for the outstanding notes the redemption of the certificates offsetting the note liability of the banks which owned them. In other words the notes based upon these certificates now continue in circulation indefinitely until they gradually come in and are retired under the slow redemption methods of the national system. The arrangement is convenient for a department whose free cash has again sunk alarmingly near the danger line, but implies a continued inflation of note currency due to the forcing out of bank issues during a time of "emergency" with no mechanism for compelling their return. This situation is likely to be repeated in exaggerated form should there ever be an issue of currency under the Aldrich-Vreeland Act of 1908.

Substantial advances of railroad rates are being effected by the transportation companies in several more or less obscure ways. These changes are made evident through complaints filed with the Interstate Commerce Commission in which shippers and associations contest the legality of various changes in railroad regulations or schedules. The changes are of several descriptions including among others: (1) reclassifications of commodities designed to shift goods bearing a low class-rate to a group bearing a higher rate; (2) regrouping of local rates in such a way as to make a higher combined charge between two given points; (3) changes in incidental charges and allowances, as, e. g., cartage, transfers, etc. Some of the changes thus introduced appear to be in violation of provisions of the act to regulate commerce while others result in more or less discriminatory charges which may well be held inequitable when they have been fully considered by the Interstate Commerce Commission. The total result of the changes is to add materially to the actual cost of transportation and the widespread character of the changes thus introduced has strengthened many shippers in the opinion previously entertained that, even though public opinion has deterred railway managers from making open advances in freight rates, the same object will be partially attained in secret or surreptitious ways. This process is not absolutely new but had to some extent been resorted to during the rate-raising period of the past summer. The more recent innovations, however, seem to affect commodities of larger tonnage, such as packing-house products and lumber.